

## Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 CAB-02 CIAE-00 COME-00 DODE-00  
DOTE-00 EB-08 INR-07 NSAE-00 FAA-00 TRSE-00 PA-01  
PRS-01 L-03 /035 W  
-----006370 291833Z /43

R 291704Z JUL 77  
FM AMEMBASSY BONN  
TO SECSTATE WASHDC 0209  
INFO USMISSION USBERLIN  
AMEMBASSY LONDON  
AMEMBASSY PARIS

C O N F I D E N T I A L SECTION 01 OF 02 BONN 12499

E.O. 11652: GDS  
TAGS: EAIR, GW, WB, UK, FR, US  
SUBJECT: CIVAIR: BCATAG DISCUSSION OF PROPOSED FARE  
INCREASE ON INTERNAL GERMAN SERVICE

REF: STATE 175387

SUMMARY: BCATAG JULY 29 HELD DISCUSSIONS ON PAN AM-  
BA PROPOSAL FOR FARE INCREASE ON INTERNAL GERMAN SER-  
VICES. DISCUSSION PROCEEDED IN AN UNPRECEDENTEDLY  
FRIENDLY AND CALM MATTER THAT RAISES POSSIBILITY OF A  
RELATIVELY SMOOTH FARE INCREASE EXERCISE. GERMAN SIDE  
TOOK EXCEPTION TO AIRLINES' PROJECTIONS OF COSTS AND  
ASKED THAT CAPITALS BE MADE AWARE OF GERMAN VIEWS AND  
THAT AIRLINES BE ASKED FOR BETTER AND MORE DETAILED  
JUSTIFICATION OF THEIR ESTIMATES. CAA'S AGREED TO  
THIS. END SUMMARY.

1. BERLIN CIVIL AIR TRAFFIC ADVISORY GROUP (BCATAG)  
JULY 29 DISCUSSED COMBINED BA-PAN AM CASE FOR A FARE  
INCREASE ON INTERNAL GERMAN SERVICE (IGS) ROUTES.  
HELD OF FOREIGN OFFICE SPEAKING FOR GERMAN SIDE TOOK  
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BASIC EXCEPTION TO PROJECTION OF 11.6 PERCENT INCREASE  
IN COSTS IN 1977 OVER 1976. HE CLAIMED GENERAL PRICE  
INDEX PRESENTLY WAS ONLY 3.5 TO FOUR PERCENT HIGHER  
THAN A YEAR AGO AND CLAIMED THAT, OF COSTS CITED BY  
AIRLINES, ONLY LABOR HAD GONE UP SIGNIFICANTLY AND THAT  
ONLY EIGHT PERCENT. FUEL COSTS HE MAINTAINED HAVE NOT  
INCREASED SIGNIFICANTLY IN THE PAST YEAR. PAAS OF

FEDERAL MINISTRY OF TRANSPORTATION STATED THAT THERE WOULD BE NO INCREASE IN LANDING FEES BEFORE NOVEMBER 1978. HELD NOTED THAT LUFTHANSA'S RECENT INCREASE COVERED A PERIOD SINCE THE LAST RISE THAT WAS SIX MONTHS LONGER THAN THE PERIOD SINCE THE LAST IGS INCREASE AND THAT SINCE 1968 LUFTHANSA FARES HAD INCREASED 172 PERCENT TO 168 PERCENT FOR THE IGS CARRIERS.

2. CAA'S, WHILE POINTING OUT THAT THEY WERE NOT PREPARED TO SUPPORT THE AIRLINES' CASE UNTIL RECOMMENDATIONS WERE RECEIVED FROM CAPITALS, ANSWERED THAT, BESIDES LABOR, HANDLING FEES AND AIR TRAFFIC CONTROL FEES HAD GONE UP SIGNIFICANTLY OR WERE SCHEDULED TO DO SO AND THAT FUEL PRICE INCREASES APPEARED TO BE A STRONG POSSIBILITY. THEY NOTED THAT THERE HAD BEEN A TWO PERCENT DECLINE IN TRAFFIC VOLUME IN THE FIRST SIX MONTHS OF 1977. FINALLY, THEY POINTED OUT THAT THE INDEX OF LUFTHANSA VERSUS IGS INCREASES DEPENDED ON WHICH BASE YEAR ONE CHOSE, AND THAT THE PREVIOUS IGS INCREASE COVERED AS LONG A PERIOD AS THE LUFTHANSA INCREASE IF ONE COUNTED FROM THE TIME THE APPLICATION WAS MADE RATHER THAN FROM WHEN IT WAS APPROVED.

3. IN REPLY TO AIRLINES' ARGUMENT THAT LUFTHANSA'S COSTS WENT UP AT THE SAME RATE AS DID PAN-AM AND BA, PAAS MAINTAINED THAT LUFTHANSA COULD NOT BE COMPARED  
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TO THE IGS CARRIERS BECAUSE FORTY PERCENT OF ITS

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C O N F I D E N T I A L SECTION 02 OF 02 BONN 12499

DOMESTIC TRAFFIC WAS PRO-RATED FEEDER TO INTERNATIONAL FLIGHTS FOR WHICH LUFTHANSA RECEIVED ONLY ABOUT FORTY PERCENT OF FULL FARE. HE WAS UNABLE TO GIVE OVER-ALL FIGURE FOR PRO-RATE DILUTION OF DOMESTIC SERVICES.

4. HELD ASKED THAT FRG VIEWS BE MADE KNOWN TO THE CAPITALS AND THE AIRLINES AND THE LATTER BE REQUESTED TO COME UP WITH DETAILED JUSTIFICATION OF THEIR PROJECTION OF AN 11.5 PERCENT INCREASE IN COSTS. THE CAA'S AGREED TO THIS.

5. WHEN ASKED ABOUT THE POSSIBILITY OF AN INCREASE IN THE FRG SUBSIDY TO PASSENGERS ON THE IGS, HELD PRODUCED A LETTER HE HAD RECENTLY RECEIVED FROM THE FEDERAL MINISTRY OF FINANCE SAYING THERE WAS VIRTUALLY NO CHANCE OF SUCH A SUBSIDY. THE LETTER CLAIMED THAT THE MATTER HAD BEEN BROUGHT UP IN THE FINANCE COMMITTEE OF THE BUNDESTAG IN MAY, AND BOTH THE COALITION PARTIES HAD FLATLY OPPOSED A SUBSIDY. DESPITE THIS, HELD SAID, THE POSSIBILITY IS NOT DEAD FOREVER. IF, BUT ONLY IF,  
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A JUSTIFIED INCREASE IN FARES RESULTED IN A SHARP DROP IN LOAD FACTORS, THE FOREIGN OFFICE WOULD BE PREPARED TO MAKE A STRONG FIGHT FOR A SUBSIDY INCREASE.

6. COMMENT: ALTHOUGH THE FRG SIDE TOOK VIRTUALLY THE SAME APPROACH IN OPPOSITION TO THE FARE INCREASE AS IT TOOK IN 1976, THE ATMOSPHERICS WERE ENTIRELY DIFFERENT THAN PREVIOUS BCATAG MEETINGS WHETHER DEALING WITH FARE INCREASES OR OTHER MATTERS. THE GERMAN SIDE WAS FRIENDLY AND RELAXED. HELD EXPRESSED AT LENGTH HIS APPRECIATION OF THE ALLIES AGREEING TO DISCUSSIONS RELATIVELY EARLY IN THE FARE INCREASE EXERCISE AND DECLARED THAT HE "SINCERELY BELIEVED" THAT THE QUESTION OF A FARE INCREASE REMAINED AN OPEN ISSUE WITH THE ALLIED GOVERNMENTS. WE ARE A LONG WAY FROM BEING HOME FREE, BUT, WITH PROPER HANDLING, THERE SEEMS A GOOD CHANCE OF COMPLETING THE EXERCISE WITHOUT THE CONSIDERABLE IF MISGUIDED BITTERNESS AND UNPLEASANT PUBLICITY

THAT ACCOMPANIED PREVIOUS FARE INCREASES.  
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## Message Attributes

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